



# WEINLANDER FITZHUGH

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& CONSULTANTS

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CITY OF HARRISON  
HARRISON, MICHIGAN

FINANCIAL STATEMENTS  
DECEMBER 31, 2006

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GLADWIN AND WEST BRANCH

**RSM McGladrey Network**

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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name MAR -5 2007 CITY OF HARRISON	County CLARE
Fiscal Year End 12-31-06	Opinion Date 2-28-07	Date Audit Report Submitted to State 2-29-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

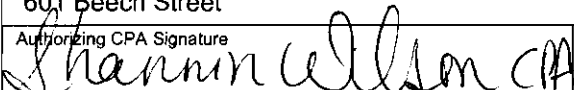
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Included in Report on Internal Control (pgs 36-38)
Other (Describe)	<input checked="" type="checkbox"/>	SAS 61 Letter
Certified Public Accountant (Firm Name) Weinlander Fitzhugh		Telephone Number 989-386-3481
Street Address 601 Beech Street		City Clare
		State MI
		Zip 48617
Authorizing CPA Signature 		Printed Name Shannon Wilson
		License Number 1101027042

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## INDEPENDENT AUDITORS' REPORT

February 28, 2007

Members of the City Council  
City of Harrison  
Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harrison, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund and the aggregate remaining fund information of the City of Harrison as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
February 28, 2007  
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

## **Required Supplemental Information**

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## **Other Supplemental Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Weinlander Fitzhugh*

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

Our discussion and analysis of the City of Harrison's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2006.

**Financial Highlights**

The General Fund reported an increase in fund balance of \$41,000 resulting in a balance of \$646,000 at the end of the year. Ending fund balance for the City's other major funds was \$110,000 for the Library Operating Fund, \$157,000 for the Fire Fund, and \$526,000 for the Local Improvement Fund.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Harrison financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the Government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Library Operating Fund, Fire Fund and Local Improvement Fund, with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Government acts solely as an agent or trustee. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the Major Governmental Funds (Required Supplemental Information)

Other Supplemental Information

**Reporting the City as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

These two statements report the City's net assets as a way to measure the City's financial position. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the City.

**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

*Proprietary Funds*

These funds are reported in the fund financial statements and generally report services for which the Government charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Government organization such as the water and sewer utilities and garbage collection.



**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2006**

*Fiduciary Funds*

The City is the trustee, or fiduciary, for tax collections. All of the City's fiduciary activities are reported in separate Statements of Net Assets. We excluded these activities from the City's other financial statements because the assets cannot be utilized by the City to finance its operations.

**Government-wide Financial Analysis**

**Financial position** - The statement of net assets provides the perspective of the City as a whole. Exhibit A provides a summary of the City's net assets as of December 31, 2006 and 2005.

<b><u>Exhibit A</u></b>	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	(In thousands)		(In thousands)		(In thousands)	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>						
Current and other assets	\$ 1,743	\$ 1,570	\$ 1,624	\$ 1,535	\$ 3,367	\$ 3,105
Capital assets - net of accumulated depreciation	<u>2,132</u>	<u>2,163</u>	<u>14,223</u>	<u>14,517</u>	<u>16,355</u>	<u>16,680</u>
Total Assets	<u>3,875</u>	<u>3,733</u>	<u>15,847</u>	<u>16,052</u>	<u>19,722</u>	<u>19,785</u>
<b>Liabilities</b>						
Current liabilities	29	24	83	80	112	104
Long-term liabilities	<u>728</u>	<u>744</u>	<u>5,030</u>	<u>5,109</u>	<u>5,758</u>	<u>5,853</u>
Total Liabilities	<u>757</u>	<u>768</u>	<u>5,113</u>	<u>5,189</u>	<u>5,870</u>	<u>5,957</u>
<b>Net Assets</b>						
Invested in property and equipment -net of related debt	1,384	1,401	9,114	9,331	10,498	10,732
Restricted	0	0	485	485	485	485
Unrestricted	<u>1,734</u>	<u>1,564</u>	<u>1,135</u>	<u>1,047</u>	<u>2,869</u>	<u>2,611</u>
Total Net Assets	<u>\$ 3,118</u>	<u>\$ 2,965</u>	<u>\$ 10,734</u>	<u>\$ 10,863</u>	<u>\$ 13,852</u>	<u>\$ 13,828</u>

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

Exhibit A , on the previous page, focuses on net assets. The City's total net assets were approximately \$14 million at December 31, 2006. Capital assets, net of related debt, totaling approximately \$10.5 million compares the original costs, less depreciation of the City's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$500,000 are reported separately to show legal constraints from debt requirements and legislation that limit the City's ability to use those net assets for day-to-day operations.

The \$2.9 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

**Results of operations** - The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended December 31, 2006. Exhibit B provides a summary of the City's operations for 2006 and 2005.

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2006**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	(In thousands)		(In thousands)		(In thousands)	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b><u>Exhibit B</u></b>						
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 376	\$ 377	\$ 876	\$ 881	\$ 1,252	\$ 1,258
Grants and contributions	5	5	0	36	5	41
General revenue:						
Property taxes	709	692	0	0	709	692
State revenue sharing	372	370	0	0	372	370
Interest and investment earnings	68	38	61	28	129	66
Transfers in (out)	(14)	(20)	14	20	0	0
Other	195	138	16	15	211	153
Total revenue	<u>1,711</u>	<u>1,600</u>	<u>967</u>	<u>980</u>	<u>2,678</u>	<u>2,580</u>
<b>Function/Program Expenses</b>						
General government	335	302	0	0	335	302
Public safety	439	383	0	0	439	383
Public service	345	372	0	0	345	372
Highways and streets	181	386	0	0	181	386
Recreation and culture	223	281	0	0	223	281
Sewer	0	0	588	652	588	652
Water	0	0	398	337	398	337
Garbage and rubbish	0	0	110	106	110	106
Interest on long-term debt	35	36	0	0	35	36
Total expenses	<u>1,558</u>	<u>1,760</u>	<u>1,096</u>	<u>1,095</u>	<u>2,654</u>	<u>2,855</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 153</u>	<u>\$ (160)</u>	<u>\$ (129)</u>	<u>\$ (115)</u>	<u>\$ 24</u>	<u>\$ (275)</u>

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was \$2.7 million. Certain activities were partially funded by \$1.3 million from those who benefited from the programs, or by the other Cities and organizations that subsidized certain programs with operating grants and contributions of \$5,000. We paid for the remaining "public benefit" portion of our governmental and business-type activities with approximately \$709,000 in taxes, \$372,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The City experienced an increase in net assets of \$24,000 mainly due to actual expenditures being less than anticipated. Property tax and other revenue increased this year. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

### The City's Funds

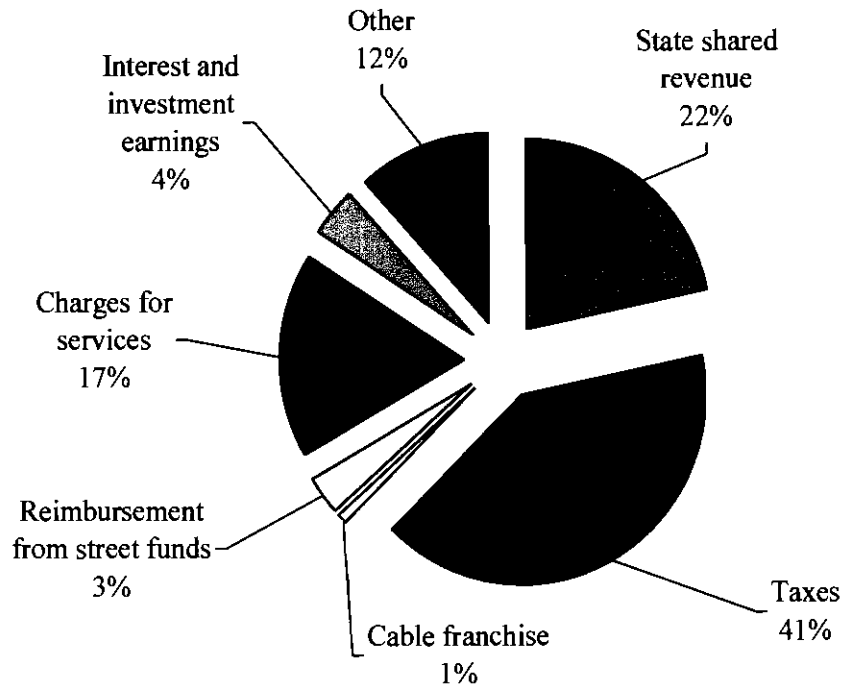
The City uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the City is being accountable for the resources taxpayers and others provide to it and may provide more insight into the City's overall financial health.

The City's Governmental funds reported a combined fund balance of \$1.73 million which is up from last year's total of \$1.56 million. The schedule below details the fund balance (in thousands) and the total change in fund balances as of December 31, 2006 and 2005.

	Fund Balance December 31, 2006	Fund Balance December 31, 2005	Increase (Decrease)
	(in thousands)	(in thousands)	(in thousands)
General	\$ 646,000	\$ 604,000	\$ 42,000
Major Streets	155,000	153,000	2,000
Local Streets	57,000	25,000	32,000
Budd Lake	79,000	68,000	11,000
Building Authority	4,000	4,000	0
Library Operating	110,000	65,000	45,000
Fire	157,000	120,000	37,000
Local Improvement	526,000	524,000	2,000
Total	<u>\$ 1,734,000</u>	<u>\$ 1,563,000</u>	<u>\$ 171,000</u>

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2006**

The graph below details the major sources of the City's governmental fund revenue.



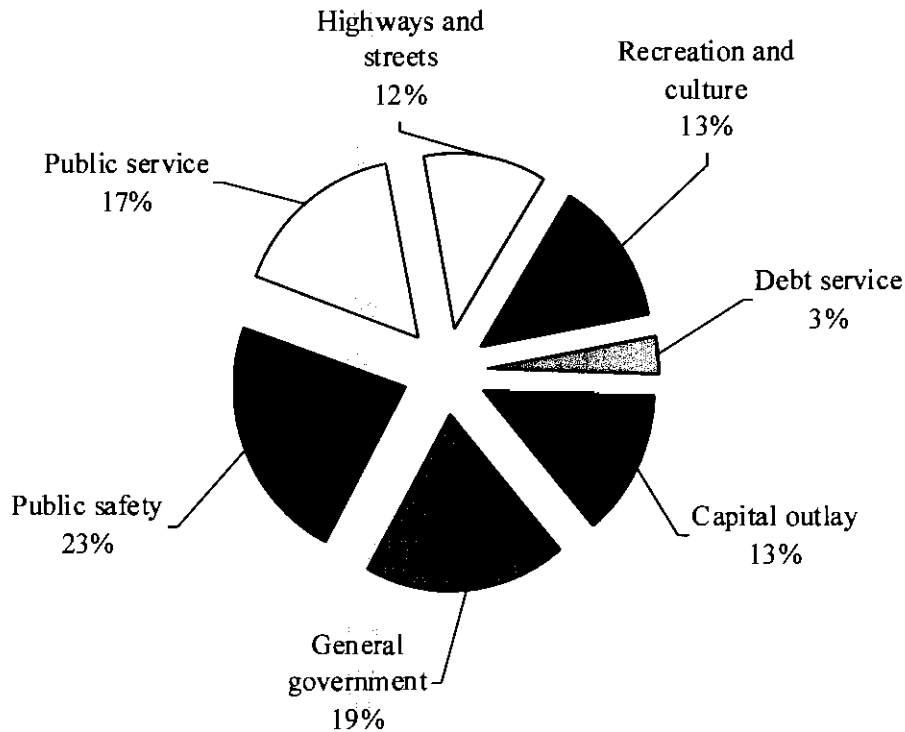
The chart below compares current year revenues with last year.

	2006	2005
<i>Revenues by Function</i>		
State shared revenue	\$ 372,000	\$ 370,000
Taxes	708,000	692,000
Cable franchise	12,000	11,000
Reimbursements from street funds	60,000	69,000
Charges for services	301,000	295,000
Other	204,000	146,000
Interest and investment earnings	68,000	38,000
Total	<u>\$ 1,725,000</u>	<u>\$ 1,621,000</u>

Revenues are up \$104,000 due to increased interest income due to higher interest rates, increased Library penal fines collected and more tax revenue as a result of a higher tax millage and a rise in property values.

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2006**

The graph below details the major expenditure categories of the City.



The chart below compares current year expenditures with last year.

	2006	2005
<i>Expenditures by Function</i>		
General government	\$ 292,000	\$ 297,000
Public safety	351,000	285,000
Public service	256,000	302,000
Highways and streets	181,000	386,000
Recreation and culture	205,000	266,000
Debt service	50,000	50,000
Capital outlay	206,000	202,000
Total	<u>\$ 1,541,000</u>	<u>\$ 1,788,000</u>

Expenditures are down \$247,000 from the prior year due a decrease in the cost of street paving and no building or land acquisition as in the prior year.

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

**Business-Type Activities** -The City's Proprietary Funds show the activity of the Water Fund, Sewer Fund and Garbage Collection Fund. The Water Fund reported net assets of \$3 million and a net decrease in net assets of \$59,000. The decrease in net assets is mainly due to the decrease in charges for services, increases in personnel costs and an increase in interest expense. The City also received a \$19,000 grant in the prior year. The Sewer Fund reported net assets of \$7.7 million and a net decrease of \$71,000. The decrease in net assets is mainly due to a decrease in charges for services and an increase in building and equipment maintenance expense. The City also received a \$17,000 grant in the prior year. The Garbage Collection Fund reported net assets of \$24,000 and a net increase of \$400. The net increase in net assets is mainly due to the combination of an increase in charges for services of \$4,000 and an increase in contractual services of \$5,000.

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

**General Fund Budgetary Highlights**

Over the course of the year, the City revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the City's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

There were no changes to the beginning revenue budget. The actual revenues were greater than budgeted because State Revenue Sharing cuts were not as great as anticipated and other planned State Revenue Sharing cuts were restored. Tax revenue was also higher than anticipated due to higher taxable values within the City. The City also raised the millage rate during the year. Also, there was an increase in labor and equipment funds paid to the General Fund from the Major and Local Street Funds because of higher than expected winter maintenance activities.

Budget expenditures were increased primarily due to a reclassification of contingency funds to fund balance. The actual expenditures were less than anticipated primarily due to delaying certain projects until next year. The City also planned to have extra personnel costs in public service. Also, maintenance and repair costs for city buildings, grounds and equipment were less than anticipated. Costs for utilities and gas for vehicles was also less than originally anticipated.



**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2006**

**Capital Assets**

At December 31, 2006, the City had \$16 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net decrease (including additions and disposals) of approximately \$320,000 or 2%, from last year. The amounts below are shown in thousands.

	Governmental Activities		Business-Type Activities		Totals	
	(in thousands)		(in thousands)		(in thousands)	
	2006	2005	2006	2005	2006	2005
Land	\$ 356	\$ 356	\$ 317	\$ 317	\$ 673	\$ 673
Construction in progress	0	0	17	12	17	12
Buildings and improvements	1,157	1,151	3,887	3,887	5,044	5,038
Land improvements	194	167	0	0	194	167
Vehicles	1,025	938	0	0	1,025	938
Machinery and equipment	753	753	1,006	1,003	1,759	1,756
Water system	0	0	4,203	4,203	4,203	4,203
Sewer system	0	0	8,187	8,186	8,187	8,186
 Total capital assets	 3,485	 3,365	 17,617	 17,608	 21,102	 20,973
 Less accumulated depreciation	 1,353	 1,202	 3,394	 3,091	 4,747	 4,293
 Net capital assets	 <u>\$ 2,132</u>	 <u>\$ 2,163</u>	 <u>\$ 14,223</u>	 <u>\$ 14,517</u>	 <u>\$ 16,355</u>	 <u>\$ 16,680</u>

This year's additions of \$204,000 included dump-plow truck, a tractor mower for the sewer department, a furnace for the Library building, a sea wall at Saxton Park and improvements to a fire vehicle.

In 2007, the City plans on acquiring a loader for the department of public services. The city is also planning improvements for streets and sidewalks in 2007.

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2006**

**Debt**

At the end of this year, the City had \$5.85 million in long-term debt outstanding versus \$5.94 million in the previous year – a change of 1.5%. The City's debt includes revenue bonds for its sewer and water systems and general obligation bonds for its fire hall. This debt is summarized as follows:

	<u>2006</u>	<u>2005</u>
	(in thousands)	(in thousands)
Revenue Bonds	\$ 5,109	\$ 5,186
General Obligation Bonds	744	759
	<u>\$ 5,853</u>	<u>\$ 5,945</u>

**Factors Expected to Have an Effect on Future Operations**

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust City expenditures in response to any revenue shortfall.

**Contacting The City's Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's Office at PO Box 378, Harrison, Michigan 48625.

CITY OF HARRISON  
Statement of Net Assets  
December 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 1,646,928	\$ 1,600,990	\$ 3,247,918
Receivables (net)	91,685	23,175	114,860
Prepaid expenses	5,294	0	5,294
Capital assets - less accumulated depreciation of \$4,747,076	<u>2,131,514</u>	<u>14,222,641</u>	<u>16,354,155</u>
Total Assets	<u>3,875,421</u>	<u>15,846,806</u>	<u>19,722,227</u>
<u>Liabilities</u>			
Accounts payable	140	0	140
Customers' deposits	0	3,690	3,690
Deferred revenue	10,000	0	10,000
Interest payable	2,868	0	2,868
Noncurrent liabilities:			
Due within one year	16,000	79,000	95,000
Due in more than one year	<u>728,000</u>	<u>5,030,000</u>	<u>5,758,000</u>
Total Liabilities	<u>757,008</u>	<u>5,112,690</u>	<u>5,869,698</u>
<u>Net Assets</u>			
Invested in capital assets net of related debt	1,384,646	9,113,641	10,498,287
Restricted for other purposes	0	485,500	485,500
Unrestricted	<u>1,733,767</u>	<u>1,134,975</u>	<u>2,868,742</u>
Total Net Assets	<u>\$ 3,118,413</u>	<u>\$ 10,734,116</u>	<u>\$ 13,852,529</u>

See accompanying notes to financial statements

**CITY OF HARRISON**  
**Statement of Activities**  
**For the Year Ended December 31, 2006**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
General government	\$ 334,730	\$ 87,345	\$ 0	\$ (247,385)	\$ 0	\$ (247,385)
Public safety	439,003	0	5,240	(433,763)	0	(433,763)
Public service	345,066	237,699	0	(107,367)	0	(107,367)
Highways and streets	181,443	0	0	(181,443)	0	(181,443)
Recreation and cultural	222,489	51,551	0	(170,938)	0	(170,938)
Interest on long-term debt	35,015	0	0	(35,015)	0	(35,015)
Total governmental activities	<u>1,557,746</u>	<u>376,595</u>	<u>5,240</u>	<u>(1,175,911)</u>	<u>0</u>	<u>(1,175,911)</u>
Business-type activities:						
Sewer	587,636	461,002	0	0	(126,634)	(126,634)
Water	398,607	304,136	0	0	(94,471)	(94,471)
Garbage and collection	110,092	110,516	0	0	424	424
Total business-type activities	<u>1,096,335</u>	<u>875,654</u>	<u>0</u>	<u>0</u>	<u>(220,681)</u>	<u>(220,681)</u>
Total primary government	<u>\$ 2,654,081</u>	<u>\$ 1,252,249</u>	<u>\$ 5,240</u>	<u>(1,175,911)</u>	<u>(220,681)</u>	<u>(1,396,592)</u>
General Revenues:						
Taxes and penalties				708,352	0	708,352
State shared revenues				371,660	0	371,660
Interest income				67,926	61,052	128,978
Transfers				(13,934)	13,934	0
Miscellaneous				195,221	16,462	211,683
Total general revenues				<u>1,329,225</u>	<u>91,448</u>	<u>1,420,673</u>
Change in net assets				153,314	(129,233)	24,081
Net assets - beginning of year				2,965,099	10,863,349	13,828,448
Net assets - end of year				<u>\$ 3,118,413</u>	<u>\$ 10,734,116</u>	<u>\$ 13,852,529</u>

See accompanying notes to financial statements

CITY OF HARRISON  
Governmental Funds  
Balance Sheet  
December 31, 2006

	General Fund	Library Operating Fund	Fire Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>						
Cash and investments	\$ 574,279	\$ 115,371	\$ 158,147	\$ 524,320	\$ 274,811	\$ 1,646,928
Receivables - net	71,700	0	0	0	19,985	91,685
Due from other funds	270	0	0	1,571	0	1,841
Prepaid expenditures and advances	0	5,294	0	0	0	5,294
Total Assets	\$ 646,249	\$ 120,665	\$ 158,147	\$ 525,891	\$ 294,796	\$ 1,745,748
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accrued expenses	\$ 140	\$ 0	\$ 0	\$ 0	\$ 0	\$ 140
Due to other funds	0	270	1,571	0	0	1,841
Deferred revenue	0	10,000	0	0	0	10,000
Total liabilities	140	10,270	1,571	0	0	11,981
<u>Fund Balance</u>						
Unreserved	646,109	110,395	156,576	525,891	294,796	1,733,767
Total fund balance	646,109	110,395	156,576	525,891	294,796	1,733,767
Total Liabilities and Fund Balance	\$ 646,249	\$ 120,665	\$ 158,147	\$ 525,891	\$ 294,796	\$ 1,745,748

See accompanying notes to financial statements

CITY OF HARRISON  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
December 31, 2006

Total fund balance - governmental funds	\$ 1,733,767
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of the capital assets	3,484,593
Accumulated depreciation	(1,353,079)
Accrued interest payable is not included as a liability in governmental activities	(2,868)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	<u>(744,000)</u>
Total net assets - governmental activities	<u>\$ 3,118,413</u>

See accompanying notes to financial statements

**CITY OF HARRISON**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**For the Year Ended December 31, 2006**

	General Fund	Library Operating Fund	Fire Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<b>Revenues</b>						
State shared revenue	\$ 189,769	\$ 9,690	\$ 0	\$ 0	\$ 172,201	\$ 371,660
Taxes and penalties	674,981	0	0	0	33,371	708,352
Cable franchise	12,335	0	0	0	0	12,335
Reimbursements from street funds	60,498	0	0	0	0	60,498
Charges for services	11,813	51,551	237,699	0	0	301,063
Penal fines	0	75,726	0	0	0	75,726
Miscellaneous	6,717	26,492	31,508	5,757	54,261	124,735
Interest	23,783	4,370	9,312	20,288	10,173	67,926
Sales	2,699	0	0	0	0	2,699
<b>Total revenues</b>	<b>982,595</b>	<b>167,829</b>	<b>278,519</b>	<b>26,045</b>	<b>270,006</b>	<b>1,724,994</b>
<b>Expenditures</b>						
General government	292,199	0	0	0	0	292,199
Public safety	177,805	0	172,741	0	0	350,546
Public service	192,739	0	0	38,933	24,173	255,845
Highways and streets	0	0	0	0	181,443	181,443
Recreation and cultural	46,053	158,736	0	0	0	204,789
Capital outlay	27,375	6,640	55,165	117,140	0	206,320
Debt service:						
Principal	0	0	0	0	15,000	15,000
Interest	0	0	0	0	35,104	35,104
<b>Total expenditures</b>	<b>736,171</b>	<b>165,376</b>	<b>227,906</b>	<b>156,073</b>	<b>255,720</b>	<b>1,541,246</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>246,424</b>	<b>2,453</b>	<b>50,613</b>	<b>(130,028)</b>	<b>14,286</b>	<b>183,748</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	0	42,993	0	162,000	56,608	261,601
Transfers (out)	(204,993)	0	(13,934)	(30,000)	(26,608)	(275,535)
<b>Total other financing sources (uses)</b>	<b>(204,993)</b>	<b>42,993</b>	<b>(13,934)</b>	<b>132,000</b>	<b>30,000</b>	<b>(13,934)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>41,431</b>	<b>45,446</b>	<b>36,679</b>	<b>1,972</b>	<b>44,286</b>	<b>169,814</b>
<b>Fund balance - beginning of year</b>	<b>604,678</b>	<b>64,949</b>	<b>119,897</b>	<b>523,919</b>	<b>250,510</b>	<b>1,563,953</b>
<b>Fund balance - end of year</b>	<b>\$ 646,109</b>	<b>\$ 110,395</b>	<b>\$ 156,576</b>	<b>\$ 525,891</b>	<b>\$ 294,796</b>	<b>\$ 1,733,767</b>

See accompanying notes to financial statements

CITY OF HARRISON  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2006

Net change in fund balance - total governmental funds	\$ 169,814
Amounts reported for governmental activities in the statement of activities are different because:	
In the statement of activities, only the loss on the sale of the fixed asset is reported, whereas in the governmental funds, only the payments received for the sale of equipment is reported	(14,787)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(184,212)
Capital outlay	167,410
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	89
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	<u>15,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 153,314</u></u>

See accompanying notes to financial statements



CITY OF HARRISON  
Proprietary Funds  
Statement of Net Assets  
December 31, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 740,408	\$ 843,357	\$ 17,225	\$ 1,600,990
Accounts receivable	<u>1,149</u>	<u>15,599</u>	<u>6,427</u>	<u>23,175</u>
Total current assets	741,557	858,956	23,652	1,624,165
Capital assets less accumulated depreciation of \$3,393,997	<u>4,237,635</u>	<u>9,985,006</u>	<u>0</u>	<u>14,222,641</u>
Total Assets	<u>\$4,979,192</u>	<u>\$10,843,962</u>	<u>\$ 23,652</u>	<u>\$ 15,846,806</u>
<u>Liabilities</u>				
Current liabilities:				
Customer deposits	\$ 3,690	\$ 0	\$ 0	\$ 3,690
Current portion of bonds payable	<u>35,000</u>	<u>44,000</u>	<u>0</u>	<u>79,000</u>
Total current liabilities	38,690	44,000	0	82,690
Bonds payable	<u>1,966,000</u>	<u>3,064,000</u>	<u>0</u>	<u>5,030,000</u>
Total Liabilities	<u>2,004,690</u>	<u>3,108,000</u>	<u>0</u>	<u>5,112,690</u>
<u>Net Assets</u>				
Invested in capital assets - net of related debt	2,236,635	6,877,006	0	9,113,641
Restricted	197,500	288,000	0	485,500
Unrestricted	<u>540,367</u>	<u>570,956</u>	<u>23,652</u>	<u>1,134,975</u>
Total Net Assets	<u>\$2,974,502</u>	<u>\$ 7,735,962</u>	<u>\$ 23,652</u>	<u>\$ 10,734,116</u>

See accompanying notes to financial statements

CITY OF HARRISON  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended December 31, 2006

	Water Fund	Sewer Fund	Garbage Collection Fund	Total
<u>Operating Revenues</u>				
Charges for services	\$ 274,861	\$ 460,722	\$ 108,546	\$ 844,129
Miscellaneous	3,188	280	1,970	5,438
Total operating revenues	<u>278,049</u>	<u>461,002</u>	<u>110,516</u>	<u>849,567</u>
<u>Operating Expenses</u>				
Wages and salaries	71,032	71,418	0	142,450
Fringe benefits	34,215	44,004	0	78,219
Operating expenses	11,628	11,405	0	23,033
Contractual services	10,584	27,525	109,786	147,895
Building and equipment maintenance	10,183	32,230	0	42,413
Utilities	16,803	51,360	0	68,163
Insurance	6,718	10,070	0	16,788
Depreciation	143,105	187,649	0	330,754
Other expenses	1,489	4,095	306	5,890
Total operating expenses	<u>305,757</u>	<u>439,756</u>	<u>110,092</u>	<u>855,605</u>
Operating income (loss)	<u>(27,708)</u>	<u>21,246</u>	<u>424</u>	<u>(6,038)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Rental income	26,087	0	0	26,087
Interest income	28,434	32,618	0	61,052
Gains	0	5,000	0	5,000
Miscellaneous	0	11,462	0	11,462
Interest expenses and fees	(92,850)	(147,880)	0	(240,730)
Transfers in (out)	6,967	6,967	0	13,934
Total nonoperating revenues (expenses)	<u>(31,362)</u>	<u>(91,833)</u>	<u>0</u>	<u>(123,195)</u>
Change in net assets	(59,070)	(70,587)	424	(129,233)
Net assets - beginning of year	<u>3,033,572</u>	<u>7,806,549</u>	<u>23,228</u>	<u>10,863,349</u>
Net assets - end of year	<u>\$2,974,502</u>	<u>\$7,735,962</u>	<u>\$ 23,652</u>	<u>\$ 10,734,116</u>

See accompanying notes to financial statements

CITY OF HARRISON  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended December 31, 2006

	Water Fund	Sewer Fund	Garbage Collection Fund	Total
<u>Cash flows from operating activities</u>				
Cash received from customers	\$ 277,776	\$ 460,634	\$ 110,641	\$ 849,051
Cash payments to suppliers for goods and services	(56,305)	(136,685)	(110,092)	(303,082)
Cash payments to employees for services	(105,247)	(115,422)	0	(220,669)
Net cash provided by operating activities	<u>116,224</u>	<u>208,527</u>	<u>549</u>	<u>325,300</u>
<u>Cash flows from capital and related financing activities</u>				
Operating transfers in	6,967	6,967	0	13,934
Acquisition and construction of capital assets	(8,141)	(28,250)	0	(36,391)
Principal paid on long-term debt	(34,000)	(43,000)	0	(77,000)
Interest paid on long-term debt	(92,850)	(147,880)	0	(240,730)
Net cash (used) by capital and related financing activities	<u>(128,024)</u>	<u>(212,163)</u>	<u>0</u>	<u>(340,187)</u>
<u>Cash flows from noncapital and related financing activities</u>				
Rental and other income	<u>26,087</u>	<u>16,462</u>	<u>0</u>	<u>42,549</u>
<u>Cash flows from investing activities</u>				
Interest income	<u>28,434</u>	<u>32,618</u>	<u>0</u>	<u>61,052</u>
Net increase in cash and investments	42,721	45,444	549	88,714
Cash and investments - beginning of year	<u>697,687</u>	<u>797,913</u>	<u>16,676</u>	<u>1,512,276</u>
Cash and investments - end of year	<u>\$ 740,408</u>	<u>\$ 843,357</u>	<u>\$ 17,225</u>	<u>\$ 1,600,990</u>
<u>Reconciliation of Cash Flows from Operations</u>				
Operating income (loss)	\$ (27,708)	\$ 21,246	\$ 424	\$ (6,038)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	143,105	187,649	0	330,754
Changes in operating assets and liabilities:				
Accounts receivable	(273)	(368)	125	(516)
Customer deposits	1,100	0	0	1,100
Net cash provided by operating activities	<u>\$ 116,224</u>	<u>\$ 208,527</u>	<u>\$ 549</u>	<u>\$ 325,300</u>

See accompanying notes to financial statements.

CITY OF HARRISON  
Fiduciary Fund  
Statement of Net Assets  
December 31, 2006

	<u>Agency Fund Type (Property Tax Collection Fund)</u>
<u>Assets</u>	
Cash	<u>\$          50,972</u>
 <u>Liabilities</u>	
Undistributed taxes	<u>\$          50,972</u>

See accompanying notes to financial statements

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Harrison conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harrison:

**Reporting Entity**

The City of Harrison is governed by an elected council with a City Clerk overseeing daily operations. The accompanying financial statements present the financial position and results of operations for the City.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The nonmajor funds are presented in a single column in the fund financial statements and are detailed in the other supplemental information. On the proprietary fund statements, the garbage collection fund is a nonmajor fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

The City reports the following major governmental funds:

**General Fund** - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

**Library Operating Fund** – The Library Operating Fund is used to maintain and update the library facilities.

**Fire Fund** – The Fire Fund is used operate the City’s fire protection and rescue services.

**Local Improvement Fund** – The Local Improvement Fund is used to record transactions relative to the local improvement services provided by the City.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City reports the following major proprietary funds:

**Water Fund** – The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** – The Sewer Fund accounts for the activities of the sewage collection system.

**Assets, Liabilities, and Net Assets or Equity**

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Restricted Cash - \$485,500 of the Enterprise Fund's cash and investments is restricted for required bond reserves (Note 11).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Water system	25 to 30 Years
Sewer system	50 Years
Buildings and improvements	20 to 40 Years
Vehicles	5 to 7 Years
Machinery and equipment	3 to 12 Years

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The City of Harrison follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed budget prior to December 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.



CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 2 – BUDGETS (CONTINUED)**

4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Library Operating Fund, Local Streets Fund and Local Improvement Fund are presented as Required Supplemental Information.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The City's deposits are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

Governmental activities	\$ 1,646,928
Business-type activities	1,600,990
Fiduciary funds	<u>50,972</u>
Total	<u><u>\$ 3,298,890</u></u>

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 3,298,765
Petty cash and cash on hand	<u>125</u>
Total	<u><u>\$ 3,298,890</u></u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2006, \$3,318,360 of the City's bank balance of \$3,669,197 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's agent, but not in the City's name.

The City's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 4 - CAPITAL ASSETS**

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<b><u>Governmental activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 356,202	\$ 0	\$ 0	\$ 356,202
Capital assets being depreciated:				
Buildings and improvements	1,151,094	5,285	0	1,156,379
Land improvements	166,425	27,375	0	193,800
Vehicles	938,209	134,750	47,772	1,025,187
Machinery and equipment	753,025	0	0	753,025
Subtotal	<u>3,008,753</u>	<u>167,410</u>	<u>47,772</u>	<u>3,128,391</u>
Less accumulated depreciation for:				
Buildings and improvements	216,967	29,789	0	246,756
Land improvements	36,383	7,742	0	44,125
Vehicles	421,256	89,501	32,985	477,772
Machinery and equipment	527,246	57,180	0	584,426
Subtotal	<u>1,201,852</u>	<u>184,212</u>	<u>32,985</u>	<u>1,353,079</u>
Net capital assets being depreciated	<u>1,806,901</u>	<u>(16,802)</u>	<u>14,787</u>	<u>1,775,312</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 2,163,103</u>	<u>\$ (16,802)</u>	<u>\$ 14,787</u>	<u>\$ 2,131,514</u>
<b><u>Business-type activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 316,997	\$ 0	\$ 0	\$ 316,997
Construction in progress	11,918	5,024	0	16,942
Total capital assets not being depreciated:	<u>328,915</u>	<u>5,024</u>	<u>0</u>	<u>333,939</u>
Capital assets being depreciated:				
Water system	4,203,048	0	0	4,203,048
Sewer system	8,186,301	0	0	8,186,301
Buildings	3,887,148	0	0	3,887,148
Machinery and equipment	1,003,135	31,367	28,300	1,006,202
Total capital assets being depreciated	<u>17,279,632</u>	<u>31,367</u>	<u>28,300</u>	<u>17,282,699</u>
Less accumulated depreciation for:				
Water system	701,603	91,306	0	792,909
Sewer system	1,828,572	164,341	0	1,992,913
Buildings	251,565	10,442	0	262,007
Machinery and equipment	309,803	64,665	28,300	346,168
	<u>3,091,543</u>	<u>330,754</u>	<u>28,300</u>	<u>3,393,997</u>
Net capital assets being depreciated	<u>14,188,089</u>	<u>(299,387)</u>	<u>0</u>	<u>13,888,702</u>
Business-type activities, total capital assets, net of depreciation	<u>\$ 14,517,004</u>	<u>\$ (294,363)</u>	<u>\$ 0</u>	<u>\$ 14,222,641</u>

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 4,976
Public safety	88,457
Culture and recreation	16,345
Public service	<u>74,434</u>
Total governmental activities depreciation expense	<u>\$ 184,212</u>
Business-type activities:	
Water	\$ 143,105
Sewer	<u>187,649</u>
Total business-type activities depreciation expense	<u>\$ 330,754</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable, payables and transfers made during the year ended December 31, 2006 are as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 270	\$ 0	\$ 204,993
Library Fund	270	0	42,993	0
Fire Fund	1,571	0	0	64,038
Local Improvement Fund	0	1,571	162,000	30,000
Major Street Fund	0	0	0	26,608
Local Street Fund	0	0	56,608	0
Building Authority Fund	0	0	50,104	0
Water Fund	0	0	6,967	0
Sewer Fund	0	0	6,967	0
	<u>\$ 1,841</u>	<u>\$ 1,841</u>	<u>\$ 325,639</u>	<u>\$ 325,639</u>

The General Fund transferred \$162,000 to the Local Improvement Fund and \$42,993 to the Library Fund to cover operational costs

The Fire Fund transferred \$6,967 to the Sewer Fund, \$6,967 to the Water Fund and \$50,104 to the Building Authority Fund to cover operational costs.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

The Major Street Fund transferred \$26,608 to the Local Streets Fund to cover operational costs.

The Local Improvement Fund transferred \$30,000 to the Local Street Fund to cover cost for improving the local streets.

The Library Operating Fund has recorded a due to the General Fund in the amount of \$270 as of December 31, 2006. The payable represents unreimbursed personnel costs.

The Fire Fund has recorded a due to the Local Improvement Fund in the amount of \$1,571 as of December 31, 2006. The payable represents Local Improvement Fund interest deposited into the Fire Fund savings account.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 6- LONG-TERM DEBT**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
2002 Building Authority Bonds, due in annual installments of \$1,000 to \$25,000 through December 1, 2031, with an interest rate of 4.625%.	<u>\$ 759,000</u>	<u>\$ (15,000)</u>	<u>\$ 744,000</u>

**Business-Type Activities**

1984 Water System Revenue Bonds, due in annual installments of \$5,000 to \$30,000 through December 31, 2020 with an interest rate of 5.0%.	\$ 330,000	\$ (15,000)	\$ 315,000
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2002 Water Supply System Junior Lien Revenue bonds, due in annual installments of \$1,000 to \$94,000 through July 1, 2040 with an interest rate of 4.5%.	1,705,000	(19,000)	1,686,000
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1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	1,035,000	(18,000)	1,017,000
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1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	182,000	(3,000)	179,000
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CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 6— LONG-TERM DEBT (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<b><u>Business-Type Activities (Continued)</u></b>			
2002 Sewage Disposal System Junior Lien Revenue Bonds, due in annual installments of \$3,000 to \$105,000 through September 1, 2041 with an interest rate of 4.5%.	\$ 1,934,000	\$ (22,000)	\$ 1,912,000
Total Business-Type Activities	<u>\$ 5,186,000</u>	<u>\$ (77,000)</u>	<u>\$ 5,109,000</u>

Long-term obligation activity can be summarized as follows:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance December 31, 2006</u>	<u>Amount Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
General Obligation Bonds	<u>\$ 759,000</u>	<u>\$ 0</u>	<u>\$ 15,000</u>	<u>\$ 744,000</u>	<u>\$ 16,000</u>
<b><u>Business-Type Activities</u></b>					
Revenue Bonds	<u>\$ 5,186,000</u>	<u>\$ 0</u>	<u>\$ 77,000</u>	<u>\$ 5,109,000</u>	<u>\$ 79,000</u>

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 6- LONG-TERM DEBT (CONTINUED)**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended December 31	Government-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 16,000	\$ 34,410	\$ 79,000	\$ 237,010
2008	16,000	33,670	83,000	233,253
2009	17,000	32,930	90,000	229,305
2010	18,000	32,144	96,000	225,018
2011	19,000	31,311	98,000	220,445
2012-2016	111,000	142,451	568,000	1,027,566
2017-2021	141,000	114,006	679,000	879,276
2022-2026	178,000	78,210	718,000	717,886
2027-2031	228,000	32,698	906,000	531,971
2032-2036	0	0	881,000	310,086
2037-2041	0	0	911,000	117,000
Total	<u>\$ 744,000</u>	<u>\$ 531,830</u>	<u>\$ 5,109,000</u>	<u>\$ 4,728,816</u>

**NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)**

**Plan Description** – The City of Harrison participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Harrison. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City of Harrison's competitive bargaining units and requires a contribution from the employees of 3% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

**Annual Pension Costs** – For year ended December 31, 2006, the City of Harrison's annual pension cost of \$49,080 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal actuarial cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increase of 4.5% per year, and (iii) 2.5% per year cost of living adjustments. These assumptions were determined using techniques that smooth the effects of short-term volatility over a four-year period.



CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)**

Three year trend information as of December 31, 2006 follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 46,762	\$ 48,248	\$ 49,080
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	1,400,770	1,491,275	1,586,727
Actuarial accrued liability	1,767,485	1,859,516	2,007,200
Unfunded AAL	366,715	368,241	420,473
Funded ration	79%	80%	79%
Covered payroll	413,261	413,509	432,593
UAL as a percentage of covered payroll	88%	89%	97%

**NOTE 8 – POST-EMPLOYMENT BENEFITS**

The City has elected to provide post-employment health benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. Currently, two retirees are eligible for post-employment health benefits. For the fiscal year ended December 31, 2006, the City made payments for post-employment health benefit premiums of \$12,600.

**NOTE 9 – OPERATING LEASE**

The City leases office and storage space in its fire station to the Department of Natural Resources under an operating lease that expires in June 2013. Annual rent is \$30,815 and the lessee has two five-year options. Minimum future rentals are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 30,815
2008	30,815
2009	30,815
2010	30,815
2011	30,815
Thereafter	46,223
	<u>\$ 200,298</u>

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 10 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts and errors and omissions. The City has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

**NOTE 11– NET ASSETS - RESTRICTED**

As required by various bond ordinances, the City has established and funded reserves for bond retirement of \$197,500 for the Water Fund and \$288,000 for the Sewer Fund

**NOTE 12 - COMPLIANCE WITH ALLOWABLE EXPENDITURES**

The City has made expenditures during the current year which are not allowed by the State of Michigan under MCL 141.421 et al. Expenditures such as flowers, donations, including use of property, to nonprofit, church and civic organizations and gifts to employees or officials are not allowed by the State of Michigan.

## Required Supplemental Information

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 160,000	\$ 160,000	\$ 189,769	\$ 29,769
Taxes and penalties	646,828	646,828	674,981	28,153
Cable franchise	9,000	9,000	12,335	3,335
Reimbursements from street funds	46,000	46,000	60,498	14,498
Charges for services	7,000	7,000	11,813	4,813
Miscellaneous	5,400	5,400	6,717	1,317
Interest	3,000	3,000	23,783	20,783
Sales	1,000	1,000	2,699	1,699
Total revenues	878,228	878,228	982,595	104,367
<u>Expenditures</u>				
General government	395,031	403,331	292,199	111,132
Public safety	177,203	178,306	177,805	501
Public service	236,475	243,475	192,739	50,736
Recreation and cultural	89,125	89,125	73,428	15,697
Contingency	63,096	63,573	0	63,573
Total expenditures	960,930	977,810	736,171	241,639
Excess (deficiency) of revenues over expenditures	(82,702)	(99,582)	246,424	346,006
<u>Other Financing (Uses)</u>				
Operating transfers out	(92,993)	(204,993)	(204,993)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(175,695)	(304,575)	41,431	346,006
Fund balance - beginning of year	604,678	604,678	604,678	0
Fund balance - end of year	<u>\$ 428,983</u>	<u>\$ 300,103</u>	<u>\$ 646,109</u>	<u>\$ 346,006</u>

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - Library Operating Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 8,400	\$ 8,400	\$ 9,690	\$ 1,290
Charges for services	48,843	48,843	51,551	2,708
Penal fines	57,000	57,000	75,726	18,726
Miscellaneous	27,429	27,429	26,492	(937)
Interest	1,200	1,200	4,370	3,170
Total revenues	142,872	142,872	167,829	24,957
<u>Expenditures</u>				
Recreation and cultural	185,895	185,895	165,376	20,519
Excess (deficiency) of revenues over expenditures	(43,023)	(43,023)	2,453	45,476
<u>Other Financing Sources</u>				
Operating transfer in	42,993	42,993	42,993	0
Excess (deficiency) of revenues and other financing sources over expenditures	(30)	(30)	45,446	45,476
Fund balance - beginning of year	64,949	64,949	64,949	0
Fund balance - end of year	<u>\$ 64,919</u>	<u>\$ 64,919</u>	<u>\$ 110,395</u>	<u>\$ 45,476</u>

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - Fire Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Charges for services	\$ 237,699	\$ 237,699	\$ 237,699	\$ 0
Miscellaneous	30,915	30,915	31,508	593
Interest	500	500	9,312	8,812
Total revenues	269,114	269,114	278,519	9,405
<u>Expenditures</u>				
Public safety	342,992	375,077	227,906	147,171
Excess (deficiency) of revenues over expenditures	(73,878)	(105,963)	50,613	156,576
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	(13,934)	(13,934)	(13,934)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(87,812)	(119,897)	36,679	156,576
Fund balance - beginning of year	25,753	25,753	25,753	0
Fund balance - end of year	<u>\$ (62,059)</u>	<u>\$ (94,144)</u>	<u>\$ 62,432</u>	<u>\$ 156,576</u>

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - Local Improvement Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Miscellaneous	\$ 0	\$ 0	\$ 5,757	\$ 5,757
Interest	3,500	5,000	20,288	15,288
Total revenues	3,500	5,000	26,045	21,045
<u>Expenditures</u>				
Public service	533,179	660,919	156,073	504,846
Excess (deficiency) of revenues over expenditures	(529,679)	(655,919)	(130,028)	525,891
<u>Other Financing Sources (Uses)</u>				
Transfers in	50,000	162,000	162,000	0
Transfers out	(30,000)	(30,000)	(30,000)	0
Total other financing sources (uses)	20,000	132,000	132,000	0
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(509,679)	(523,919)	1,972	525,891
Fund balance - beginning of year	523,919	523,919	523,919	0
Fund balance - end of year	<u>\$ 14,240</u>	<u>\$ 0</u>	<u>\$ 525,891</u>	<u>\$ 525,891</u>

## Other Supplemental Information



CITY OF HARRISON  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2006

	Major Streets Fund	Local Streets Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Assets</u>					
Cash and investments	\$ 154,871	\$ 57,313	\$ 59,136	\$ 3,491	\$ 274,811
Taxes receivable	0	0	19,985	0	19,985
Total Assets	<u>\$ 154,871</u>	<u>\$ 57,313</u>	<u>\$ 79,121</u>	<u>\$ 3,491</u>	<u>\$ 294,796</u>
 <u>Fund Balance</u>					
Unreserved	<u>\$ 154,871</u>	<u>\$ 57,313</u>	<u>\$ 79,121</u>	<u>\$ 3,491</u>	<u>\$ 294,796</u>

CITY OF HARRISON  
Other Supplemental Information  
Combining Statement of Revenues, Expenditures and Changes  
in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended December 31, 2006

	Major Streets Fund	Local Streets Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Revenues</u>					
State shared revenue	\$ 108,088	\$ 64,113	\$ 0	\$ 0	\$ 172,201
Taxes and penalties	0	0	33,371	0	33,371
Interest	6,948	1,548	1,658	19	10,173
Other	4,000	157	0	50,104	54,261
Total revenues	119,036	65,818	35,029	50,123	270,006
<u>Expenditures</u>					
Public service	0	0	23,773	400	24,173
Highways and streets	90,577	90,866	0	0	181,443
Debt service:					
Principal	0	0	0	15,000	15,000
Interest	0	0	0	35,104	35,104
Total expenditures	90,577	90,866	23,773	50,504	255,720
Excess (deficiency) of revenues over expenditures	28,459	(25,048)	11,256	(381)	14,286
<u>Other Financing Sources (Uses)</u>					
Transfers in	0	56,608	0	0	56,608
Transfers (out)	(26,608)	0	0	0	(26,608)
Total other financing sources (uses)	(26,608)	56,608	0	0	30,000
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,851	31,560	11,256	(381)	44,286
Fund balance - beginning of year	153,020	25,753	67,865	3,872	250,510
Fund balance - end of year	\$ 154,871	\$ 57,313	\$ 79,121	\$ 3,491	\$ 294,796

CITY OF HARRISON  
City of Harrison Water Extension Project  
Selected Information  
For the Year Ended December 31, 2006

1. A separate report on internal control can be found on page 36.
2. The accounting records and methods were satisfactorily maintained.
3. Proper physical controls over assets were exercised.
4. Deposited funds of \$205,262 are in institutions insured by the Federal Government. However, auto investment sweep accounts (formerly municipal investment fund accounts) of \$536,000 are not insured.
5. The financial records reflected in the audit are in agreement with the accounting records of the Water Supply System.
6. The aging of accounts receivable is as follows:

0 - 30 days	\$ 193
31 - 60 days	562
61 - 90 days	80
91 days and older	314
	<u>\$ 1,149</u>

7. The loan agreement requires the maintenance of cash reserves in the amount of \$1,000 and \$500 be deposited quarterly to the Junior Lien Bond Reserve Account and Replacement Account, respectively, until a total of \$32,000 and \$5,000 has been reached, respectively. The loan agreement also requires the maintenance of a cash reserve deposited in the Junior Lien Redemption Account for payment of principal and interest on the Bonds. A sum equal to at least  $\frac{1}{2}$  of the interest due on the next ensuing interest due date and not less than  $\frac{1}{4}$  of the principal maturing on the next ensuing principal payment date is required. The Bond Reserve Account and the Replacement Account have a balance of \$32,000 and \$5,000, respectively, as of December 31, 2006. The Junior Lien Redemption Account has a balance of \$16,500 as of December 31, 2006.
8. The City of Harrison carries the following insurance policies:
  - a. Comprehensive general liability and public officials errors and omissions, policy number MML001303121, policy amount of \$5,000,000, expiration date 1/1/07.

CITY OF HARRISON  
City of Harrison Water Extension Project  
Selected Information  
For the Year Ended December 31, 2006

- b. Property policy to cover the fixed assets of Water Supply System, policy number MML001303121, policy amount of \$1,197,155, expiration date 1/1/07.
  - c. Business auto liability, policy number MML001303121, policy amount of \$5,000,000, expiration date 1/1/07.
  - d. Fidelity bond covering city treasurer, policy number BSH-1795522, policy amount of \$60,000, expiration date 9/1/07.
9. The following is a list of the names and addresses of all members of the governing body, as appropriate, with their office and term of office for the City of Harrison City Council.

Mayor

Brook Wood                      November 2008  
1380 Byfield  
Harrison, MI 48625

Council Members

Chris Damvelt                      November 2010  
2600 Mostetler  
Harrison, MI 48625

Don Kolander                      November 2010  
220 E. Spruce  
Harrison, MI 48625

Linda O'Leary                      November 2010  
202 N. Lake Street  
Harrison, MI 48625

Stacey Stocking                      November 2008  
314 S. Second Street  
Harrison, MI 48625

David Rowe                      November 2008  
209 W. Park  
Harrison, MI 48625

Daniel Sullivan                      November 2008  
292 E. Pine Street  
Harrison, MI 48625

Dates shown are term expiration dates.

10. No further information is necessary for full disclosure.



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

ROBERT E. LIST, CPA  
STEWART J. REID, CPA  
MICHAEL L. HANISKO, CPA  
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KATHLYN M. ENGELHARDT, CPA  
RENAE M. CLEVINGER, CPA  
AMY L. RODRIGUEZ, CPA  
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA  
ROYA. SCHAIRER, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

February 28, 2007

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council  
City of Harrison  
Harrison, Michigan

We have audited the financial statements of City of Harrison as of and for the year ended December 31, 2006, and have issued our report thereon dated February 28, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrison's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Harrison's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the

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# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
February 28, 2007  
Page 2

deficiencies described in the accompanying schedule of findings and responses to be significant in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harrison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as item 2006-01.

City of Harrison's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Harrison's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Members of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*

CITY OF HARRISON  
Schedule of Findings and Responses  
For the Year Ended December 31, 2006

2006-01

Criteria

Properly calculating and recording of cash collections, cash disbursements and utility billing and collection.

Condition

Lack of complete segregation of duties with respect to cash collections, cash disbursements and utility billing and collection.

Context

Applicable to cash collections, cash disbursements and utility billing and collection.

Effect

Errors in calculation, recording and use of City funds.

Cause

Lack of complete segregation of duties with respect to the cash collections, cash disbursements and utility billing and collection and implementation of compensating controls.

Recommendation

Increase oversight and implement proper segregation of duties regarding the cash collections, cash disbursements and utility billing and collection functions.

Views of responsible officials and planned corrective actions

Management will evaluate internal control items identified above and determine appropriate changes for the size of the City.



# WEINLANDER FITZHUGH

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ROBERT J. DUYCK, CPA

February 28, 2007

Members of the City Council  
City of Harrison  
Harrison, Michigan

This letter is intended to inform the City Council about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the City Council.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

## **The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards**

Our audit of the financial statements of the City for the year ended December 31, 2006 was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the City's internal control or compliance with laws and regulations.

## **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

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# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
February 28, 2007  
Page 2

## **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

## **Uncorrected Misstatements**

We also accumulated ten uncorrected misstatements, which were discussed with management and was determined by management to be immaterial, both individually and in the aggregate, to the opinion units of the financial statements. Therefore, the adjustments to correct this misstatements was not made to the financial statements. This uncorrected misstatement is summarized in the accompanying schedule.

## **Accounting Policies and Alternative Treatments**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

## **Disagreements with Management**

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

## **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

## **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.



# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
February 28, 2007  
Page 3

## **Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

## **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the City.

This report is intended solely for the information and use of the Members of the City Council and management and is not intended to be, and should not be, used by anyone other than the specified parties.

*Weinlander Fitzhugh*

CITY OF HARRISON  
Summarized Schedule of Uncorrected Misstatements  
December 31, 2006

	<u>Effect - Increase (Decrease)</u>	
	<u>Net</u>	<u>Fund</u>
	<u>Income</u>	<u>Balance</u>
<u>General Fund:</u>		
<u>Carryover impact from previous years</u>		
Known errors:		
Unrecorded state revenue sharing	\$ (32,248)	\$ 0
Differences with estimates:	0	0
Projected errors	0	0
<u>Current year misstatements</u>		
Known errors:		
Unrecorded state revenue sharing	34,068	34,068
Differences with estimates:	0	0
Projected errors:	0	0
Net effect on current year	<u>\$ 1,820</u>	<u>\$ 34,068</u>
<u>Special Revenue Funds</u>		
<u>Carryover impact from previous years</u>		
Known errors:		
Unrecorded Act 51 revenue in Major Street Fund	\$ (16,414)	\$ 0
Unrecorded Act 51 revenue in Local Street Fund	(8,990)	\$ 0
Differences with estimates:	0	0
Projected errors:	0	0
<u>Current year misstatements</u>		
Known errors:		
Unrecorded Act 51 revenue in Major Street Fund	15,893	15,893
Unrecorded Act 51 revenue in Local Street Fund	8,613	8,613
Differences with estimates:	0	0
Projected errors:	0	0
Net effect on current year	<u>\$ (898)</u>	<u>\$ 24,506</u>

CITY OF HARRISON  
Summarized Schedule of Uncorrected Misstatements  
December 31, 2006

	<u>Effect - Increase (Decrease)</u>	
	<u>Net</u>	<u>Net</u>
	<u>Income</u>	<u>Assets</u>
<u>Proprietary Funds:</u>		
<u>Carryover impact from previous years</u>		
Known errors:		
Unbilled accounts receivable	\$ (68,424)	\$ 0
Unrecorded accrued interest on bonds	87,058	0
Differences with estimates:	0	0
Projected errors	0	0
 <u>Current year misstatements</u>		
Known errors:	0	0
Unbilled accounts receivable	67,919	67,919
Unrecorded accrued interest on bonds	(85,985)	(85,985)
Differences with estimates:	0	0
Projected errors:	0	0
Net effect on current year	<u>\$ 568</u>	<u>\$ (18,066)</u>